

Message Text

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ACTION AF-06

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TAGS: ENRG

SUBJECT: TENNECO DECIDES TO RELINQUISH ITS CONCESSION IN ETHIOPIA

1. DURING CALL ON AMBASSADOR NOVEMBER 3 ROBERT BOGAN, GENERAL MANAGER OF TENNECO'S OPERATION IN ETHIOPIA, ADVISED THE AMBASSADOR THAT TENNECO, SPEAKING ON BEHALF OF TEXACO AND CHEVRON, AS WELL AS ITSELF, OFFICIALLY RELINQUISHED ITS CONCESSION ON OCTOBER 31. THE REASONS FOR THE RELINQUISHMENT WERE: A) US TAX ADVANTAGES AVAILABLE TO THE THREE COMPANIES PROVIDED THAT THEY RELINQUISHED BY OCTOBER 31; B) DISAGREEMENT WITH THE ETHIOPIAN GOVERNMENT ON WHEN TO REINSTITUTE A DRILLING PROGRAM - THE EPMG WANTED THE COMPANIES TO RESUME DRILLING 18 MONTHS FROM SEPTEMBER 1975, WHEREAS THE COMPANIES WANTED TO WAIT 36 MONTHS; C) THE COMPANIES FEARED THAT, SHOULD A MAJOR DISCOVERY OCCUR, THE GOVERNMENT WOULD PROBABLY INSIST UPON A MAJOR PARTICIPATION IN THE PRODUCTION PHASE IMMEDIATELY WHICH WOULD MAKE IT DIFFICULT FOR THE COMPANIES TO OBTAIN A REASONABLE RETURN ON THEIR INVESTMENT AND; D) BASED ON THE GEOLOGICAL DATA COLLECTED AND GIVEN CURRENT ECONOMIC CONDITIONS IN THE OIL INDUSTRY, THIS CONCESSION IS NO LONGER AN ATTRACTIVE PLACE FOR EXPLORATION.

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2. BOGAN DISCUSSED THE RELINQUISHMENT WITH THE MINISTER OF MINES WHO APPARENTLY ACCEPTED TENNECO'S DECISION WITH EQUANIMITY. BOGAN ALSO MET WITH THE MINISTER OF DEFENSE NOVEMBER 3 BECAUSE THE AIR FORCE HAS EXPRESSED AN INTEREST IN PURCHASING SOME OF THE EQUIPMENT TENNECO STILL RETAINS IN COUNTRY. THE MINISTER OF DEFENSE ALSO SEEMED TO ACCEPT TENNECO'S DECISION WITHOUT UNDUE CONCERN. BOGAN OBSERVED THAT THUS FAR CLOSING DOWN IN ETHIOPIA HAD BEEN EASIER THAN IN MOST OTHER COUNTRIES WHERE TENNECO HAD CARRIED OUT SIMILAR DISENGAGEMENTS.

3. DURING BOGAN'S CONVERSATION WITH THE MINISTER OF MINES, HE POINTED OUT THAT TEXACO AND POSSIBLY TENNECO (BUT NOT CHEVRON) WOULD STILL BE INTERESTED IN RETAINING THEIR CONCESSION SHOULD THE GOVERNMENT AGREE TO GIVE THEM 36 MONTHS BEFORE HAVING TO RESTART THE DRILLING PROGRAM. BOGAN BELIEVES THAT TEXACO WOULD PROBABLY GIVE UP ITS TAX ADVANTAGES IN RETURN FOR THIS ARRANGEMENT. HE DOES NOT KNOW WHAT TENNECO'S REACTION TO THIS ARRANGEMENT WOULD BE AS THIS POSSIBILITY WAS RAISED AT THE LAST MINUTE BY TEXACO BEFORE BOGAN LEFT FOR ETHIOPIA AND TENNECO DID NOT HAVE TIME TO CONSIDER IT ADEQUATELY. WHILE IT IS NOT IMPERATIVE THAT A DECISION ON THIS MATTER BE TAKEN BEFORE THE FIRST OF THE YEAR (BECAUSE THE TAX ADVANTAGES CAN BE USED LATER AS LONG AS THE RELINQUISHMENT WAS FILED BY OCTOBER 31, BOGAN EXPECTS THE EPMG TO RESPOND TO THIS PROPOSAL IN THE NEAR FUTURE AS THE MINISTER OF MINES HAS BEEN FAIRLY EXPEDITIOUS IN OBTAINING EPMG DECISIONS ON MATTERS OF THIS SORT.

4. BOGAN DOUBTS THAT OTHER COMPANIES WILL COME INTO ETHIOPIA, ASSUMING THE EPMG REJECTS THE 36-MONTH PROPOSAL, BECAUSE OF THE ECONOMIC CONDITIONS IN THE OIL INDUSTRY AND THE RATHER HIGH COSTS OF FINDING AND, IF FOUND, PRODUCING PETROLEUM IN ETHIOPIA. NEVERTHELESS, BOGAN AND THE AMBASSADOR AGREED THAT IT WAS UNLIKELY THE PMAC WOULD AGREE TO A 36-MONTH EXTENSION BUT WOULD RATHER PUSH THE MINISTER OF MINES TO FIND OTHER COMPANIES WHICH MIGHT BE INTERESTED IN TAKING OVER THE TENNECO CONCESSION.

5. BOGAN IS WRAPPING UP TENNECO'S AFFAIRS IN ETHIOPIA AND PLANS TO LEAVE FOR THE US NOVEMBER 8.

HUMMEL

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